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## E-Bulletin

# The Challenge Fund: A New Mechanism to Promote Financial Inclusion



Coffee growers from Socorro and San Gil (Santander) using mobile banking services  
Source: National Federation of Coffee Growers



Financial Inclusion is a major goal of the Banca de las Oportunidades Program (BDO)  
Source: Banca de las Oportunidades, Final Report 2012

**The co-financing provided by the GOC through the Challenge Fund enabled the leveraging of US\$1.6 million through the successful establishment of new public-private partnerships for mobile banking development with three major Colombian banks.**

For the 40,000 inhabitants of Cumaribo (Vichada), 85% of whom are poverty-stricken peasants, reaching the closest bank in order to make a payment, receive conditional cash transfers from government social programs like “Familias en Acción”, or apply for a loan to improve their legal crops, can require a road trip of more than 12 hours.

To change this reality and enable financial services to reach inhabitants of the country’s most remote rural areas, the Government of Colombia (GOC) began implementation of the Challenge Fund in April 2013 with the support of the USAID Public Policy Program. This fund is an innovative policy instrument for building new public-private partnerships to promote E-transactions and mobile banking. The development of this initiative will allow for the financial inclusion of 80% of the 11 million peasants who, according to several studies, do not have access to the country’s financial system, which definitively limits their opportunities to save, obtain credit and generate income.

For the banking sector, mobile banking services will significantly reduce the cost of safeguarding and transporting cash and obtaining risk insurance. In Colombia, this cost can amount to as much as 2.5% of the value of transported funds, one of the highest rates in the world, thereby limiting the possibility of expanding banking services to the 307 most distant municipalities, which lack the presence of financial institutions and banking correspondents.

The Challenge Fund was developed on the basis of lessons learned from successful financial inclusion experiences in Africa and England. The USAID Public Policy Program advised the Ministry of Finance (MOF) and the Banca de las Oportunidades Program (BDO) on the design of this mechanism for allocating and disbursing public funds, which invites stakeholders to compete for a pool of funds to be awarded to the best proposals. In addition, the Program advised the MOF and the BDO on defining the profile of potential bidders and the transaction modalities that could be employed in the proposals. Finally, the Program supported the design of criteria for evaluating the proposals, and provided technical assistance in the selection of the best innovative ideas and projects.

As a result, the GOC selected three winning E-transaction projects, together valued at \$3.2M, from among the 11 proposals that were evaluated beginning in November 2012, and it allocated funds to cover 50% of the value of each. Thus, co-financing provided by the GOC through the Challenge Fund enabled the leveraging of US\$1.6 million

through the successful establishment of new public-private partnerships for mobile banking development with three major Colombian banks: *Bancolombia*, *Bancamia* and *Banco AV Villas*. The winning projects, which focus on promoting electronic transactions through mobile phones, will be implemented beginning in May 2013.

The Challenge Fund project awarded to *Banco AV Villas* will begin with a pilot mobile banking program in Villavicencio (Meta), with the aim of creating users and networks for conducting people-to-business (P2B) transactions. It is expected that mobile banking will enable the rural inhabitants of the extensive Colombian Orinoco region, where Cumaribo is located, to progressively conduct their financial transactions through their cell phones, a technology that is available throughout the country for the entire Colombian population. A second pilot program will be implemented by *Bancolombia* to provide mobile financial services to dairy farmers in the rural area of Ubaté (Cundinamarca). These experiences, together with those of the *Bancamia* project, will be documented and evaluated in order to make it possible to expand mobile banking services to other rural areas of the country – a fundamental change that will have profound effects and generate new livelihood opportunities for rural inhabitants.